

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EB-11 TRSE-00 FCSC-01 CIAE-00 DODE-00

INR-10 NSAE-00 PA-04 RSC-01 USIA-15 PRS-01 SPC-03

SS-20 L-03 OMB-01 DRC-01 NSC-10 H-03 STR-08 CEA-02

CIEP-02 /122 W

----- 052250

R 211127Z NOV 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 0497

INFO USDOC WASHDC

AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 1 OF 2 BUDAPEST 3756

E.O. 11652: N/A

TAGS: EFIN,ETRD, HU

SUBJECT: AMBASSADOR'S CALL ON FEKETE

REF: A) BUDAPEST 3719; B) BUDAPEST 3724

USDOC FOR BEWT

VIENNA FOR EAST-WEST TRADE CENTER

1. BEGIN SUMMARY. IN AMBASSADOR'S COURTESY CALL ON NATIONAL BANK PRESIDENT FEKETE, PRICIPAL SUBJECTS OF DISCUSSION WERE: MFN FOR HUNGARY, ROLE OF CEMA BANKS, CEMA CURRENCY CONVERTIBILITY, AND FOREIGN EXCHANGE RATE SYSTEMS. (AMBASSADOR ALSO BROUGHT UP STATUS OF BOND NEGOTIATIONS AND PROBLEM RELATING TO CLAIMS AGREEMENT. THESE SUBJECTS REPORTED IN REFTELS A AND B.) FEKETE SAID HE UNDERSTOOD REASONS WHY WE WERE DELAYING MFN ACTION AND WHILE HE WAS DISAPPOINTED THEY COULD WAIT MATTER OUT. HE THOUGHT THOSE WHO WERE USING ISSUE TO IMPROVE STATUS OF JEWS IN USSR WERE OVERLOOKING FACT SOVIETS NOW GRANTING UNPRECEDENTED NUMBER OF EMIGRATION PERMITS. FURTHER PRESSURES ON THIS

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ISSUE WOULD BE MORE LIKELY TO HURT THAN HELP. HE ALSO SAID IT

WAS IRONICAL THAT WE OFTEN TALKED ABOUT INDEPENDENCE OF STATES OF EASTERN EUROPE BUT THEN DID NOT FOLLOW THIS TALK UP WITH INDEPENDENT POLICY INITIATIVES. AMBASSADOR ASKED WHETHER HUNGARY REALLY WOULD WANT US TO EXTEND MFN TO IT IF WE WERE NOT DOING SO TO USSR. FEKETE SAID "WHY NOT", NOTING POLES HAD LONG HAD IT. CONCERNING CURRENCY CONVERTABILITY WITHIN CEMA FEKETE SAID PROGRESS WAS BEING MADE AND PROBLEM WOULD BE SOLVED OVER PERIOD OF YEARS ALTHOUGH MUCH WORK REMAINED TO BE DONE. HE SAID HE WAS AN ADVOCATE OF SCRAPPING DUAL FORINT EXCHANGE RATE IN FAVOR OF SINGLE RATE, BUT HE DID NOT THINK THAT SUCH A MEASURE WOULD BE CARRIED OUT IN THE NEAR TO MEDIUM TERM FUTURE. END SUMMARY.

2. AMBASSADOR BEGAN MEETING BY COMMENTING ON THE GOOD RELATIONS NATIONAL BANK HAD WITH ITS AMERICAN COUNTERPARTS AND NOTED THE HIGH INTEREST OF AMERICAN BANKERS IN HUNGARY. WAS THERE ENOUGH POTENTIAL BUSINESS HERE TO WARRANT ALL THEIR INTEREST? REPLYING TO THE FIRST QUESTION FEKETE SAID THAT THE CONNECTION BETWEEN THE NATIONAL BANK AND AMERICAN BANKS WERE CLOSE AND EXTENSIVE AND THAT THE RELATIONS WITH CHASE MANHATTAN AND BANK OF AMERICA WERE ESPECIALLY CORDIAL. WHILE THERE MIGHT NOT BE SUFFICIENT POTENTIAL BUSINESS IN HUNGARY TO SHARE AMONG ALL THE AMERICAN BANKS WHICH HAD INVESTIGATED POSSIBILITIES HERE, TRADE WOULD EASILY TRIPLE ABOVE PRESENT LEVELS SHORTLY AFTER GRANTING OF MFN AND COULD GO MUCH HIGHER. HUNGARY ANTICIPATES INVESTING BETWEEN 700-800 MILLION FORINTS DURING NEXT FIVE YEAR PLAN AND THIS WOULD PROVIDE EXCELLENT BUSINESS POSSIBILITIES FOR AMERICAN COMPANIES. HUNGARY WAS MAKING A CONCERTED EFFORT TO EXPAND THE NUMBER OF ITS WESTERN TRADING PARTNERS SO AS NOT TO HAVE ALL ITS EGGS IN ONE BASKET AND SO AS TO HAVE ACCESS TO BEST TECHNOLOGY. IN FEKETE'S MIND THE US WAS BEST TARGET FOR EXPANSION. FOR HIM JAPAN WAS NOT SATISFACTORY ALTERNATIVE SINCE THE JAPANESE "WERE ONLY INTERESTED IN SELLING AND NOT DEVELOPING TRADE ON A BILATERAL BASIS". NOTED ONLY AGREEMENT EVER REACHED WITH JAPAN WAS THE NEW ONE ON ALUMINUM PLANT.

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3. FEKETE CHARACTERIZED MFN PROBLEM AS FORMIDABLE STUMBLING BLOCK IN TRADE WITH US. HE FULLY UNDERSTOOD PRESENT DIFFICULTIES ADMINISTRATION HAVING WITH CONGRESSIONAL OPPOSITION ON SUBJECT AND THOUGHT DECISION TO POSTPONE CONSIDERATION OF MFN IN VIEW OF MIDDLE EAST SITUATION HAD BEEN WISE ONE. WHAT HE COULD NOT UNDERSTAND WAS LOGIC OF COMESTIC OPPOSITION IN US. SITUATION OF SOVIET JEWS, HE CONTINUED, HASN'T BEEN THIS GOOD IN 50 YEARS, AS THEY

ARE ACTUALLY BEING ALLOWED TO LEAVE COUNTRY AT RATE OF 30,000 PER YEAR. IF OPPOSITION PERSISTED IN ITS EFFORTS TO BLOCK MFN MOST LIKELY RESULT WOULD BE THAT JEWISH EMIGRATION WOULD SLOW TO A TRICKLE.

4. FEKETE THEN SAID IT WAS ANAMOLY THAT US SPOKE OF TREATING EE STATES INDEPENDENTLY BUT THAT ON ISSUES LIKE MFN THEY ALL LUMPED TOGETHER. AMBASSADOR THEN INQUIRED WHETHER FEKETE THOUGHT HUNGARIANS WOULD REALLY LIKE TO SEE US EXTEND MFN TO THEM IF WE WERE NOT ABLE TO DO SO TO USSR. FEKETE SAID "WHY NOT"? AFTER ALL POLAND ALREADY HAS MFN. IN HIS OPINION PROBLEM WITH US-EAST EUROPEAN POLICY WAS THAT WHILE US PROCLAIMED THAT THEY HAD INDIVIDUAL POLICIES TOWARDS ALL COUNTRIES IN AREA, WHEN OPPORTUNITIES CAME TO IMPLEMENT THIS THEY WERE NOT USED.

5. AMBASSADOR ASKED FEKETE ABOUT HUNGARIAN TARIFF SYSTEM AND WHETHER IT WAS NOT POSSIBLE TO GRANT CUSTOMS REDUCTION OR WAIVERS ON CERTAIN INSTANCES WHERE US GOODS NEEDED. FEKETE REPLIED THAT OF COURSE HE COULD GRANT AN EXEMPTION FOR CUSTOMS DUTIES IF HE BELIEVED THAT IT WAS IN HUNGARY'S BEST INTEREST BUT THAT THIS POWER WAS USED SPARINGLY. HE DID NOT ELABORATE AS TO PRECISELY UNDER WHICH CIRCUMSTANCES OR FOR WHICH PRODUCTS SUCH WAIVERS WERE GRANTED.

6. IN RESPONSE TO A QUERY CONCERNING THE ROLES OF THE COMECON BANKS, IBEC AND IIB FEKETE ROUGHLY LIKENED THEIR POSITION TO THOSE OF THE IMF AND IBRD IN THE NON-COMMUNIST WORLD. THE IBEC PRIMARY ROLE IS TO OFFER SHORT TERM CREDITS IN RUBLES FOR THE PURPOSE OF BALANCING TRADE ACCOUNTS BETWEEN CEMA PARTNERS. THENLANK'S HARD CURRENCY LOAN FUND CONSISTED PRIMARILY OF MONEY THAT HAD BEEN RAISED BY THE BANK ON WESTERN MONEY MARKETS. THIS MONEY WAS THEN RELOANED LIMITED OFFICIAL USE

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TO SOME OF CEMA'S LESS CREDIT-WORTHY MEMBERS, WHO MIGHT HAVE DIFFICULTY OBTAINING LOANS FROM WESTERN BANKERS AT REASONABLE INTEREST RATES AT PERHAPS ONE HALF PERCENT ABOVE THE WESTERN MONEY MARKET RATE. HUNGARY WHICH HAD A GOOD REPUTATION IN WESTERN BANKING CIRCLES HAD NO NEED FOR SUCH LOANS AND HAD NEVER BORROWED HARD CURRENCY FROM THE BANK. THE IIB WAS ENGAGED PRIMARILY IN FINANCING LONG TERM COOPERATIVE VENTURES CARRIED OUT WITHIN THE FRAMEWORK OF THE CEMA COMPLEX SCHEME. IN ADDITION THE BANK HAD ONE BILLION RUBLES OF CREDIT AVAILABLE FOR LOANS TO DEVELOPING COUNTRIES. HE

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CIEP-02 /122 W

----- 050779

R 211127Z NOV 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 0498

INFO UEHDC/USDOC WASHDC

AMEMBASSY VIENNA

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SAID IIB, LIKE IBEC HAD HARD CURRENCY ASSETS.

7. THE AMBASSADOR THEN INQUIRED ABOUT THE CONTENTION OF SOME LEADING HUNGARIAN ECONOMISTS THAT IT WAS IMPOSSIBLE TO HAVE TRULY MULTILATERAL CURRENCY AND TRADE WITHIN CEMA UNTIL PROBLEMS OF PRICE SYSTEMS AND EXCHANGE RATES WERE RESOLVED AND SUBSTANTIAL CHANGES MADE IN ECONOMIES OF NEIGHBORING COUNTRIES PATTERNED ON THE HUNGARIAN MODEL. FEKETE ACKNOWLEDGED THAT FORMIDABLE PROBLEMS REMAINED BUT SAID PROGRESS WAS BEING MADE. SAID CEMA IS AT STATE OF BILATERAL TRADE AND MULTILATERAL CLEARING. THIS IS WHERE EUROPEAN PAYMENTS UNION WAS IN THE EARLY 1950S. IT TOOK WEST EUROPE EIGHT YEARS TO GRADUATE FROM MULTILATERAL CLEARING TO TRULY MULTILATERAL TRADE. HE SAID IT WOULD ALSO TAKE NUMBER OF YEARS TOACHIEVE THIS IN CEMA.

8. ASKED ABOUT REPORTS THAT CONSIDERATION MIGHT BE UNDERWAY ABOUT MOVING TO SINGLE FOREIGN EXCHANGE RATE, FEKETE ANSWEREDTHAT THE IDEA OF A SINGLE EXCHANGE RATE WAS AN EXCELLENT IDEA AND ONE OF WHICH HE WAS AN ADVOCATE. HE DID NOT BELIEVE, HOWEVER, THAT SINGLE RATE WOULD BE LIMITED OFFICIAL USE

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INTRODUCED IN THE NEAR OR MEDIUM TERM FUTURE.
PEDERSEN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EAST WEST TRADE, MFN, FOREIGN EXCHANGE RATES, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: martinjw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BUDAPE03756
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731121/aaaaaows.tel
Line Count: 226
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) BUDAPEST 3719; B) BUDAPEST 3724
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 21 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Sep-2001 by thigpegh>; APPROVED <20 FEB 2002 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AMBASSADOR'S CALL ON FEKETE
TAGS: EFIN, ETRD, HU, CEMA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005